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ISSUE

¶1. Summary. Each week, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Construction, Property BEE Charters Signed;
- BER Expects 2006 Growth at 4.6%;
- SA Firms See Expansion in Carbon Credits;
- Firms that Use Import Parity Pricing may Lose Tax Benefits;
- Services Key to Banks' BEE Procurement;
- Schools Lack Computer Equipment and Literacy; and
- China's Influence on Rand to Grow.

End Summary.

Construction, Property BEE Charters Signed

¶2. The construction and property black economic empowerment (BEE) charters were signed after about two years of negotiations. Both charters proposed a range of targets, including the sale of 25% of assets of the sector to black partners within the next five years. The charters committed private corporations to set aside 10% of their annual development investments to underdeveloped areas and to achieve 40% black representation at board level, half of them women. The construction charter also proposed a target of 70% for procurement. The property charter allows different treatment for sub-sectors, such as estate agents, commercial property owners, property services companies and property loan stock companies. Source: Business Report, March 20.

BER Expects 2006 Growth at 4.6%

¶3. Stellenbosch University's Bureau of Economic Research (BER) expects South African growth to reach 4.6%, with lower inflation and higher infrastructure spending. BER's prediction was lower than the government's 5% growth forecast. BER also expects 2007 growth slowing to 4.1%. BER views robust increases in real disposable income as the main reason for consumer-led growth. According to BER, as long as skills shortages are reduced, the economy had a potential to create more jobs, leading to growth in real income. BER warned that growth could be slowed by a drop in prices for commodities other than gold. Business confidence recovered in the first quarter 2006. The business confidence index rose to 86 from 85 in the

previous three months, according to a survey by Rand Merchant Bank and BER. The index reached a 24-year high of 87.6 in the fourth quarter of 2004. BER predicted that the rand would average R6.35 a dollar in 2006 and R6.92 in 2007, while the currency was expected to be R7.79 against the euro and R8.66 in 2006 and 2007, respectively. Source: Business Report, March 20.

SA Firms See Expansion in Carbon Credits

¶4. According to Pricewaterhouse Coopers (PwC), South African companies could earn R5.8 billion ($950 million, using 6.1 rands per dollar) over the next 10 years from the sale of carbon credits earned on projects to reduce greenhouse gas emissions. Previous estimates of the economic benefits reached R2.5 billion. The R5.8 billion projection applies to six South African projects that have either been approved or are in the final stages of approval by the executive board of the Clean Development Mechanism (CDM), a global system that allows trade in reductions of carbon emissions by signatories to the UN's Kyoto Protocol. Harmke Immink, a manager in the sustainability solutions division at PwC, said the estimate was based on an exchange rate of R10 to the euro and a price of E8 per ton of certified emission reductions. The R5.8 billion excludes the potential income accruing to several other projects that are still undergoing CDM approval, 13 of which have already been registered. PwC's South African office has applied to audit the projects that have applied for CDM status by ensuring the projects meet the requirements of the Kyoto Protocol and verifying that they are actually cutting emissions. Source: Business Report, March 20.

Firms that Use Import Parity Pricing may Lose Tax Benefits

¶5. According to officials at the Department of Trade and Industry (DTI), government is considering withholding incentives from companies that charge customers import parity prices. Government leaders, notably President Thabo Mbeki and Trade and Industry Minister Mandisi Mpahlwa, have spoken out against the continued use of the controversial pricing mechanism, under which major local manufacturers charge customers the price it would cost to import the product. State benefits that could be reconsidered include programs such as government's Strategic Industrial Projects (SIP) incentive initiative, which offers tax breaks to companies investing at least R50 million in qualifying projects. Nimrod Zalk, the Chief Direction of DTI's competitiveness unit, said the decision would apply to future incentives and not retroactively. Mittal Steel SA spokesman Thami Didiza said the company no longer applied the import parity pricing mechanism, as prices were benchmarked on those of comparable markets. Source: Business Day, March 22.

Services Key to Banks' BEE Procurement

¶6. Despite South Africa's major banks increasing their spending on procurement from black economic empowerment (BEE) entities, BEE firms provide mainly stationery, cleaning and security services. Standard Bank, the largest bank by assets, spent R1.75 billion ($290 million) on procuring goods and services from BEE companies in 2005, representing 38% of its total procurement spending. First National Bank (FNB) spent 45% on BEE suppliers in the past year. To ensure participation by different players, FNB was using a rotation system, where shorter contracts were given to BEE parties to allow more to become involved. The financial sector charter has set procurement targets at 50% and 70% by 2008 and 2014,

respectively. Drawbacks to increasing BEE small firm participation include capacity constraints, no economies of scale in information technology and inability to provide support services on a national scale. Nedbank wants to achieve at least 20% of its BEE procurement expenditure in high value services. The bank spent 34.5% of its procurement budget on BEE firms in 2005. (Business Report, March 22)

Schools Lack Computer Equipment and Literacy

¶7. Education Department statistics show that by the end 2005, 28% of South African schools used computers for teaching, even though 58% of schools had computers. The 58%, however, does include computers used exclusively for administrative purposes. Provincial statistics are stark in comparison to one another. While 14.2% of Eastern Cape's schools have computers, only 4.5% use them for teaching; 99.4% of Western Cape's schools have computers with 61.8% using them for teaching. In some provinces up to 60% of schools do not have access to electricity, and other infrastructure issues such as adequate roads and buildings also need to be provided. Students in the 72% of schools where computers are not used for teaching are using the education department's new curriculum which, in some parts, assumes the 12-million or so pupils at South Africa's public schools have access to computer technology. Government's white paper on education, published in 2003, promised that every South African school pupil will be information and communications technology-literate by 2013. The Education Department's heads of education committee emphasized teacher training in computer-based education for 2007. There is substantial business investment in providing schools with computers, and teachers with training. Parthy Chetty, South African education manager for Intel, points to Intel's investment of R9 million ($1.5 million) on training 30,000 out of South Africa's 400,000 teachers in computer technology since 2003. According to Chetty, Intel has found there is often a gap between training and teachers using what they have learnt because their access to computer laboratories is limited. A minimum of five teachers in each school has to be trained so that a viable support system exists. The Education Department plans to

issue a bid to audit the information technology infrastructure available in South African schools in the next few months. This audit is separate from one being conducted countrywide about school resources and the schools register of needs, which aims to give a clear picture of exactly what is needed to equip all state-funded schools. The first audit began in September 2005 by examining school needs of water, electricity, classrooms, libraries, laboratories and sports facilities and should be completed by March 2007. Source: Business Day, March 22; IOL, March 23.

China's Influence on Rand to Grow

¶8. According to James Robertson, Standard Chartered Bank's Head of Global Markets, China will have a greater impact on the value of the rand in the future because of rapidly shrinking trade with South Africa's traditional trading partners. South Africa's trade with China is growing 26% annually compared with a decline of 26% in trade between South Africa and the U.S. and 4% decline between South Africa and the United Kingdom. He also noted that the current composition of the trade weighted rand basket was still primarily made up of the euro (36.4%), U.S. dollar (15.5%), UK pound (15.4%), the Japanese yen (10.4%) and 22.5% in other currencies. Robertson suggested that the South African Reserve Bank (SARB) could add the Chinese yuan into the trade weighted

rand calculation, even though the yuan is now in a managed float, pinned to the U.S. dollar. Robertson expects the yuan to become a larger portion of the rand calculation, especially if it is allowed to float. Higher commodity prices will also support the rand's strength, despite the possible secondary inflation effects of higher oil prices. South Africa's exports to China have increased four-fold in the first nine months of 2005 to R22 billion from only R5 billion in the first nine months of 2004. Source: I-Net Bridge March 23.

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